Bunge Limited

Second Quarter 2022 Earnings Release

Wednesday, July 27, 2022 8:00 A.M.

CORPORATE PARTICIPANTS

Greg Heckman - *Chief Executive Officer*

John Neppl - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Bunge Limited second quarter 2022 earnings release and conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation, there'll be an opportunity to ask questions. Please note, this event is being recorded.

I'd now like to turn the conference over to Ruth Ann Wisener. Please go ahead.

Ruth Ann Wisener
Thank you, Jason. And thank you for joining us this morning for our second quarter earnings call.

Before we get started, I want to let you know that we have slides to accompany our discussion. These can be found in the investors section of our website at bunge.com under events and presentations. Reconciliations of non-GAAP measures to the most directly comparable GAAP financial measure are posted on our website as well.

I'd like to direct you to slide two and remind you that today's presentation includes forward-looking statements that reflect Bunge's current view with respect to future events, financial performance, and industry conditions. These forward-looking statements are subject to various risks and uncertainties. Bunge has provided additional information in its reports on file with the SEC, concerning factors that could cause actual results to differ materially from those contained in this presentation, and we encourage you to review these factors.

On the call this morning are Greg Heckman, Bunge's chief executive officer, and John Neppl, chief financial officer.

I'll now turn the call over to Greg.

Greg Heckman
Thank you, Ruth Ann. Good morning, everyone. I want to start by congratulating our team for another strong quarter thanks to their continued focus execution in this highly dynamic environment.

The results that the team delivered confirms that Bunge's global asset footprint, coupled with our operating model, enables us to more quickly adapt to market shifts. Those changes can be difficult to immediately predict, but our team has the agility and discipline to adjust and capitalize on market opportunities over time.

With our flexibility and global view of the end-to-end value chains, we're able to help our customers find solutions to the challenges and opportunities they encounter.

The war in Ukraine has dramatically upset traditional origin to destination trade flows and we've worked to find different sources for products that our customers want. Our innovation teams have also been working alongside our customers to help them reformulate products in response to tightening supplies.

At the same time, we're keeping our focus on sustainability, including our commitment to have deforestation free supply chains in 2025. Bunge's sustainable partnership program uses tools like farm scale satellite monitoring to help resellers assess their suppliers' social and environmental performance in the Brazilian Cerrado. As described in our most recent sustainability report, Bunge is now able to monitor at least 64 percent of indirect volumes in our priority regions, surpassing the 50 percent target set for the end of 2022.

Our ability to optimize value for both our customers and Bunge is reflected in our results today as well as in our long-term view of our opportunity, which we'll touch on later.

But first, turning to second quarter numbers, we continue to build on our strong momentum, delivering our 11th consecutive quarter of year-over-year earnings growth. Results in Agribusiness and also in Refined and Specialty Oils benefited from strong demand and continued tight commodity supplies. Milling results were up, delivering a record quarter as our teams effectively managed our supply chains in a dynamic environment.

Looking ahead, we're expecting to deliver adjusted EPS of at least $12 per share for the full year 2022, and that's up from the outlook we provided last quarter. This includes increased estimates in all of our core segments.

Supplies remain tight in the physical markets across all of our key businesses regardless of the commodity volatility driven by the broader financial markets. Regular seasonal production factors and continued global supply chain challenges make the value of the services we bring to our customers more relevant than ever and gives us confidence in our outlook.

Before handing it over to John, I want to take a moment to discuss both the updated earnings baseline and the growth framework we've announced today. When we first introduced our midcycle baseline in June of 2020, we were early in our work to transform our operating model and optimize our portfolio. We provided that earnings framework to help you think about how we intended to operate the business with the changes we were making.

With the initial portfolio and organizational work now behind us, we're updating our baseline in the earnings framework from $7 to $8.50, and that reflects our global platform as it stands today. This includes the structural improvements in oilseed market environment and greater benefits from our operating model.

We're also providing you with a way to think about what our platform can deliver in the future. And that's because we've been deploying capital for growth, making investments in our business that will continue to increase our earnings baseline.

We also intend to allocate capital for share repurchases. The incremental earnings from capital that we're deploying should enable us to perform at a higher level in a midcycle environment. As a result, we're providing a four-year earnings growth framework of approximately $11 per share by the end of 2026. This growth framework includes the increased earnings baseline of $8.50 plus the future benefits of investments in the business and share repurchases.

With that, I'll hand the call over to John to walk you through the results and the updated framework in more detail.

John Neppl
Thanks, Greg. And good morning, everyone. Let's turn to the earnings highlights on slide five.

Our reported second quarter earnings per share was $1.34 compared to $2.37 in the second quarter of 2021. Our reported results include a negative mark to market timing difference of $1.26 per share and a negative impact of negative 37 cents per share related to one-time items.

Adjusted EPS was $2.97 in the quarter versus $2.61 in the prior year. Adjusted core segment earnings before interest and taxes, or EBIT, was 709 million in the quarter versus 550 million last year, reflecting higher results in ag processing, Refined and Specialty Oils, and milling.

In total, Agribusiness results of 386 million were down compared to last year. The higher results in processing were primarily driven by U.S. and Brazil soy crush due to strong mill and oil demand. Results in soft seed crush were also higher primarily driven by North America.

Merchandising had a good quarter managing market volatility well. However, results were down compared to a very strong prior year as a higher contribution from global grains was more than offset by lower results in ocean freight.

And Refined and Specialty Oils results were higher in all regions with particular strength in North America and Europe refining, both benefiting from strong food demand as well as strong U.S. geo demand.

In Milling, higher results in the quarter were driven by North and South America wheat milling, reflecting higher margins and effective risk management of our supply chains. The increase in corporate expenses in the quarter was primarily related to expenditures on growth initiatives and timing of performance-based compensation accruals. The increase in other primary related to our captive insurance program and gains on investments in Bunge ventures.

In our non-core sugar bioenergy joint venture, higher ethanol and sugar prices were more than offset by the combination of lower ethanol volumes and increased costs.

For the six months ended June 30, income tax expense was $144 million compared to 242 million in the prior year. The decrease was primarily due to lower pre-tax income.

Net interest expense was up compared to last year due to both higher interest rates and higher average debt levels. Also impacting the quarter were foreign currency borrowings in certain countries where interest rates were high. However, the incrementally higher borrowing costs were fully offset with currency hedges reported in gross margin.

Let's turn to slide six where you can see our positive EPS and EBIT trends adjusted for notable items and timing differences over the past four years along with the trailing 12 months.

In addition to validating the resilience of our global platform and operating model over time, it also demonstrates continuing strong performance by our team that a successfully managed different and rapidly changing market environments over this time period.

As shown on slide seven, addressable SG&A increased modestly year-over-year. After two years of COVID-related impacts, employee travel and related expenses have picked up. And as we have discussed on previous earnings calls, we are increasing investments in people, processes, and technology to strengthen our capability and drive growth.

Slide eight details our capital allocation of the approximately $1.2 billion of adjusted funds from operations that we generated in the first half of the year. After allocating 101 million to sustaining capex, which includes maintenance, environmental health and safety, and $8 million to preferred dividends on shares now converted to common equity, we had approximately $1.1 billion of discretionary cash flow available. Of this amount, we paid 154 million in common dividends and investment 111 million in growth and productivity capex, leaving approximately 865 million of retained cash flow, which was invested in additional working capital.

Our strong balance sheet and cash flow generation puts us in a position to allocate capital to the best value creating opportunities, which I will discuss later in the presentation. As we have demonstrated in the past, we will continue to maintain a discipline and balanced approach.

As you can see on slide nine, at quarter end, readily marketable inventories, or RMI, exceeded our net debt by approximately $2.7 billion, a significant change from a year ago. Year to date, our underlying cash flow has allowed us to invest significantly in inventory with only a small increase in debt. Over time, as commodity prices moderate, the cash invested in inventory will be released and available for deployment toward debt reduction and/or other uses.

Slide 10 highlights our liquidity position which remains strong. At quarter end, we had just under $6 billion of committed credit facilities unused and available. This provides us ample liquidity to manage our ongoing working capital needs in this volatile commodity price environment.

As shown on slide 11, our trailing 12 months adjusted ROIC was 22 percent, 15.4 percentage points over our RMI adjusted weighted average cost of capital 6.6 percent. ROIC was 14.9 percent, or 8.9 percentage points over our weighted average cost of capital of 6 percent. The spread between these return metrics reflects how we use RMI in our operations as a tool to generate incremental profit.

Moving to slide 12. For the trailing 12 months, we produced discretionary cash flow of just over $2 billion and cash flow yield of 20.8 percent.

Please turn to slide 13 and our 2022 outlook. As Greg mentioned in his remarks, taking into account our Q2 results, the current margin environment and forward curves, we've increased our full year adjusted EPS outlook to at least $12 per share, a 50 cent per share increase over our previous outlook with potential upside depending on market environment and supply and demand balance.

In Agribusiness, full year results are expected to be slightly higher than our previous outlook but remain down from last year to lower expected performance in merchandising, which had a particularly strong prior year.

In Refined and Specialty Oils, full year results are expected to be up from our previous outlook and higher than last year, driven by strong demand in North American and European businesses.

In Milling, full year results are expected to be up from our previous outlook and significantly higher than last year, driven by strong first half results. We expect results in the second half of the year to be more reflective of historical performance.

In corporate and other, results are now expected to be less favorable than our previous outlook and more in line with the prior year.

In non-core, full year results in our sugar and bioenergy joint venture are expected to be in line with last year.

Additionally, the company now expects the following for the year. An adjusted annual effective tax rate of 14 to 16 percent, net interest expense in the range of 310 to 330 million, capital expenditures at the lower end of the range of 650 to 750 million, and depreciation and amortization of approximately $400 million.

With that, I'd like to now shift to an overview of our new earnings growth framework. The waterfall chart on slide 14 shows a change from our baseline of $7 a share, which we established last year, to an updated baseline of approximately $8.50.

We are also introducing an earnings growth framework that shows an increase in our midcycle baseline to approximately $11 per share by yearend 2026. We see potential upside of a dollar plus through additional investments in growth capex both on M&A and/or share repurchases from the deployment of additional retained cash.

Let's turn to slide 15 and the drivers supporting this framework.

An increase in our baseline to approximately $8.50 primarily reflects structural improvement in the oilseed market environment and greater benefits from our operating model. Consistent with our previous approach, we are defining our long-term average oilseed crush margin range by using the weighted average of our footprint for the past four years plus the trailing 12 months. We also have adjusted for returns likely needed to incent the addition of crushed capacity, especially in North America, to meet the growing demand for renewable diesel.

This increases our average structural soy crush margin to a range of 37 to $39 per metric ton and it increases our average structural soft seed crush margin, which is more sensitive to oil demand, to a range of 57 to $61 per metric ton. We believe both of these ranges reflect more reasonable midcycle margins in the go-forward structural market environment.

We have also further increased the normalized earnings of our oilseed origination and distribution businesses and our merchandising subsegment, reflecting the more coordinated and aligned approach within the value chains from the changes we have made to our operating model and approach to managing risk.

The slight increase in refined and specialty oils earnings to approximately $400 million annually is being driven by higher capacity utilization in North America refining. Importantly, we assume that margins in North America refining moderate back to roughly historical averages as we expect in time that the renewable diesel industry will add pre-treatment capability to their facilities. However, the timing of this transition has become more uncertain as we continue to hear of delays to projects due to higher construction costs and supply chain disruptions.

There are no changes from our earlier baseline of approximately $100 million annually in milling. Corporate and other are less favorable primarily due to inflation and increased costs related to growth initiatives.

We increased the contribution from our sugar and bioenergy JV slightly, reflecting improved execution and market dynamics. With respect to cost management, we expect to partially offset inflation driven per unit cost through increased productivity. There was minimal change to our forecasted effective tax rate, which we updated last year with the increase of our baseline to $7.

Now, let's look at the drivers of the increase in our base of earnings over the coming years which will enable us to generate EPS at near current levels but in a midcycle environment.

In total, we expect to deploy approximately $3.3 billion toward growth investments with about 2.3 billion being allocated toward capex as we have highlighted in the past and approximately 1 billion toward bolt-on M&A. Our capex investments are oriented toward a combination of greenfield, brownfield, and productivity projects. Our M&A targets are primarily focused on core agribusiness origin and crush capabilities.

We have also allocated capital toward share repurchases and expect to deploy approximately $1.25 billion through the period. While we plan to repurchase approximately $250 million annually, actual amounts could vary year to year depending on M&A opportunities and the amount of dilution from stock-based compensation. Additionally, any proceeds from future divestitures used toward repurchases would be incremental to these expectations.

All $3.3 billion of growth investments identified are currently in varying stages of development. While we are confident about the completion of these projects, not all have been formally approved. As such, there is risk that some will not be executed, in which case the capital will be available for other similar projects or additional share repurchases.

Moving to slide 16 and an overview of the types of investments we are pursuing. As we have highlighted in the past, our growth is primarily focused in four strategic areas: strengthening our oilseeds platform, expanding refined and specialty oils, increasing our participation in renewable feedstocks, and expanding in plant-based proteins. These are all areas that align well with our footprint capabilities.

Examples of investments underway include new refineries in Europe and India that are more flexible, efficient, and sustainable in the plants they are replacing, as well as soy crush capacity expansions in the U.S. as part of our joint venture with Chevron. Additional projects will be announced at the appropriate stage.

Note that our capital allocation process is driven by our strategy and risk adjusted returns. The percentages shown here are not pre-determined targets by strategic area, but rather are based on the mix of our current project list.

On slide 17, you can see the progression of our midcycle baseline over time, along with our future expectations. The chart shows that as we increase our base earnings base, we will become less dependent on upcycle market conditions to generate levels similar to our recent performance. Should recent market conditions continue, we would expect to exceed our midcycle baseline as we have in the past.

As mentioned earlier, upside scenario of $12 plus reflects incremental earnings driven by the deployment of available free cash flow toward growth investments in addition to the list of identified projects, as well as incremental share repurchases. For these additional growth capex projects, we have assumed earnings contributions ramping from zero to 100 percent over four years after investment.

With that, I'll turn things back over to Greg for some closing comments.

Greg Heckman

Thanks, John. Before turning to Q&A, I want to offer a few closing thoughts. One of Bunge's strengths is our culture of continuous improvement.

This is not an organization at rest. We're constantly looking to learn from what we've done and to put processes in place to ensure that we share best practices with our colleagues around the world. We're using technology, data, and analytics to make it easier to innovate and increase efficiency. And importantly, to make it easier for our customers on both ends of the value chains to do business with us.

It's this team's focus on making the business better today than it was yesterday that continues to give me the confidence that we're well positioned to succeed not just in the current environment or the next few quarters but well into the future.

And with that, we'll turn to Q&A.

QUESTION AND ANSWER

Operator
We'll now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

At this time, we'll pause momentarily to assemble our roster.

Our first question comes from Tom Palmer from JP Morgan. Please go ahead.

Tom Palmer
Good morning. Thanks for the questions and for all the detail in the presentation and the prepared remarks.

Greg Heckman
You bet. Good morning.

Tom Palmer
I wanted to start off maybe just by discussing the agribusiness results this quarter and how we might think about the setup for the balance of the year. Presentation notes an increased 2022 forecast for the segment versus the prior outlook, reflects strong second quarter performance.

At the same time, there were some maybe added headwinds that we saw in that segment just given the 20 percent dip in merchandising volume, processing, profitability, especially on a unit base that's dipping a bit versus what we've seen in the last few quarters.

So, as we think about the second half outlook, should we be looking for a rebounding in some of this merchandising volume? Is there anything specific in the quarter that drove that?

And then, industry crushing is very strong. Might we look for a rebound in processing at least sequentially?

Greg Heckman
Yeah. Thanks. No, that's a good setup.

We feel really good about the quarter. Look, it was a solid quarter. You got to think about our footprint, right?

North America, of course, is very, very strong. Brazil performed well. We had Europe. Of course, the complexities around energy. We've still got our footprint in Ukraine, which is basically not running.

The complexity in Argentina probably as high as we've seen it. And then China, the COVID lockdowns absolutely killed demand and it's been a very spot market there.

All that being said, thought the team did a fantastic job in probably one of the more volatile quarters that we've seen, which really drove our customers towards the end of the quarter, both the producer not selling any crops as well as the consumer absolutely stopped buying, kind of trying to see where the market would sort itself out.

But as we look at the second half, really a pretty interesting set up with the strong oil and meal demand really continuing. And you look at for the crush margins for the Bunge footprint, we're really about the same place we were when we were together for the Q1 call, but it looks really interesting. If you start in the U.S., you've got smaller South American crops, and we should have good bean availability to support that strong oil and meal demand in North America.

Now, we need a good U.S. crop, but it looks like we're on the way there.

Now, we talked about China. No doubt, the curves are challenged there. It's hard to imagine a situation where China could look worse than it has. We think it'll start to recover from COVID. It's been a very spot market, but the team's done a great job managing our footprint there. And I think we don't all want to forget that China's been the driver for the last couple of years in demand around the world, and they will be back at some point.

Brazil, we've seen the Q3 curves improve, even though slower farmer selling impacted Q4. But with China bean imports down, the beans have been available for crush and the mill and oil demand has been good.

But then Argentina, of course, complexity there high. The producer really not selling. Very reluctant to protect themselves against devaluation. And we saw margins decline toward the end of the curve--toward the end of the quarter and the curves are weak for the second half. But of course, it does benefit our broader global franchise.

And then in the EU, we've seen great oil demand. And with less meal out of Argentina and the Black Sea area, that's been supportive there to be able to overcome those higher energy costs on the margin.

So, it's really an interesting setup for the second half. And while the curves don't show it today, we are encouraged with the outlook.

Tom Palmer
Thanks for all that detail. As a follow up, maybe just on a different topic, on the capital allocation side, did reduce capex outlook. At this point, I don't know if guidance includes share repo, things like that.

So, I guess, just given that longer term outlook, when do we start to see more of a ramp up in terms of the expenditure side, be it for repo, M&A, or capex in general?

John Neppl
Yeah. Capex, we've called the low end of the range really just driven by some supply chain constraints. It's not a shortage of opportunity. It's just a shortage of suppliers right now. But we do expect that to improve. And I think you'll really see a ramp up next year on the capex side.

From a share repurchase standpoint, we're gearing up for that. I think our expectation is we're going to be more active in that area going forward.

And then, on the M&A side, it really depends on when the opportunity is ready to engage. We've got--we have a list of things we're working on there. Of course, sometimes those things can work quickly. Sometimes they take time, so it's hard to predict.

But I would expect balance of this year and certainly over next year for our allocation to ramp up in all three of those areas.

Tom Palmer
Great. Thank you.

Operator
The next question comes from Stephen Byrne from Bank of America. Please go ahead.

Stephen Byrne
Yes. Thank you. Is it reasonable to assume that your outlook for new capacity is primarily on the crush side rather than on the origination? And if so, do you have any particular advantages or technology that will allow you to build new crush capacity at a lower cost footprint than others?

And on the M&A side, if that's primarily focused on origination, can you comment on geographic regions where you're likely to be focused on expanding your origination footprint?

Greg Heckman
Sure. Let me start as far as the cost to build. As the largest global crusher, we better be able to build things as competitively as anyone. The other benefit that we get is plugging them into our global system for our origination as well as the granularity of our marketing and distribution that's set up regionally.

And the other thought, as we make these decisions on expanding capacity for the long-term, very thoughtful about our current footprint and where we want our footprint to be long-term to make sure that we've got the lowest cost footprint in place to be competitive in any industry cycle.

Around the origination and the M&A, look, we always have our list together and our priorities in place. And when the opportunity is right with the returns, we know where we want to continue to strengthen some of our great franchises and we know to continue to be relevant to all of our customers at both ends of the supply chain. And we've also got some targets where we'd like to be stronger on the origination side.

Surprisingly enough, Ukraine's one of the areas that we had targeted for growing our origination and of course, that's not happening now. But long-term, we expect to be part of rebuilding that because long-term, that's an important origin as well.

So, we'll look at where the long-term the origination's going to be key to feed a growing world and feed the demand that continues to move up and to the right.

John Neppl
Stephen, I might just add there that when you look at our forward model, we got about 60 percent of our expected capital focus in the area of strengthening our oilseed platform, and that's pretty evenly distributed right now between North and South America. And I would say on the North America side, probably more focused on crush capacity and South America probably more focused on origination on balance.

Greg Heckman
Yeah. And to one other finer point on where you did estimate origination, I don't know if you've seen, but some of the things we've been doing--great example in Brazil is strengthen our great franchise down there and some of that through partnerships and minority investors and resellers and helping them be more effective, but basically giving us a broader region on our origination down there. So, we'll use a variety of ways to do that through partnerships, JVs, as well as outright 100 percent acquisitions.

Stephen Byrne
Thank you. And do you think the crush margin advantage on soft seed versus soybean is sustainable longer term? And if so, what can you do to invest and increase your exposure on that side?

Greg Heckman
Yeah. And I should've mentioned when I was talking about the second half outlook, right? Soft seeds, those curves improved since Q1. And you look at North America, we expect that to be real strong due to more seed supply with new crop and good oil demand. And then in the Black Sea EU, we're seeing lower seed prices, and that's supportive of the curves in the second half.

And so, if you look at those drivers, right, it's around seed supply and it's around strong oil demand. That'll continue for the long-term. So, as we look at changing the footprint, absolutely where it makes more sense to build soft capacity or switch capacity, you'll see us do that.

And then, as you think about cover crops being developed, things like Cover Cress long-term, it's being thoughtful about where that soft crush is in place to handle some of these crops that are being developed, which will be more of a soft crush probably technology needed.

So, absolutely, a big part of thinking about the future and whether it's winter canola or what other soft seeds that help meet the demand for renewable diesel and biofuels in general, which will continue to grow.

Stephen Byrne
Thank you.

Operator
The next question comes from Ben Bienvenu from Stephens. Please go ahead.

Ben Bienvenu
Hey. Thanks. Good morning.

Greg Heckman
Hey, Ben.

Ben Bienvenu
I want to ask a two-part question about your updated baseline earnings and long-term growth outlook. The first is the decision to delineate between what could be considered as cyclical drivers of your updated assumptions versus characterizing them as structural drivers of an updated assumption. And then, the second is sensitivities to this as we move through cycles. And I ask because well, I don't know that this is explicitly being expressed in the stock price, implicit in where the stock is trading relative to this update today, it suggests that either we're going to go way below baseline earnings power over the next several years or the market believes that, and/or the use of assumptions associated with your update today are maybe on the more bullish side of the equation.

So, kind of coming back to the beginning of the question. What do you think now the business looks like in a downcycle? And two, what led you to say, hey, these crush margins are a structural change, not just a cyclical historical average?

John Neppl
Yeah. Thanks, Ben. Thinking about the midcycle, what we started with very simply and updating to the 8.50, the first thing we did was just update the averages. And so, the first step was math.

And then, we looked more closely at what we believe the go-forward margin environment's going to need to be not only to incent the right kind of capacity expansion but also what we believe is probably a longer-term structural change in the market. And that's how we landed on the margin environment what we believe will be pretty sustainable going forward for the 8.50.

What that also tells us is as we continue to increase the baseline earnings is that we should have higher highs and higher lows in terms of performance. And so, establishing I'm not going to set a floor because that's really hard to predict, but ultimately, we feel confident that in any given environment, our lows should be higher than they were in the past.

And then, in terms of going forward on the growth side, really thinking about the opportunity where it can be invested. I think our outlook is that we will focus in those areas that can provide us the best return. And thinking about also the allocation between share repurchases and growth to try to get a balanced portfolio going forward.

Greg Heckman
Ben, one other thing I might say is when we think about it--if you look at slide 17, I think that's why we've called out-look, here's the baseline and here's how the execution has been based on the market environment that we see out there.

Look, we really like the global machine that we put together here. We like the way our team's continued to work with customers through the complexity created by the supply chain issue, whether it's truck or whether it's the way rail's performing in North America. And we're seeing that stickiness with customers for the long-term.

And so, one of our goals is to continue to outperform that baseline through execution because every dollar then we earn above that, we're able to invest more quickly, whether that be in M&A, whether that be in organic growth or in share repurchases. And then that just gives us the ability to move that number forward into the more nearby.

Ben Bienvenu
Okay. Makes sense. Yeah, it's a great update and seems like you all have a nice set up from here.

The second question is more housekeeping. John, the 3.3 billion of capex and M&A, what is the start date on that? Is that including this year? Or is that starting in 2023? Just to think about the cash flow as we plot those into buckets over the next few years.

John Neppl
Yeah. That's really starting this year, and I would say a big ramp up in 2023 and 2024. And when you think about the timeline, it's going to more frontend loaded. We're looking at probably roughly we've modeled it out 80 percent of that total spend probably over the next three years.

But the impact of that from an earnings standpoint is more backend loaded because a lot of this--some of it's bolt-on M&A things that we're assuming will get closed earlier. But when you look at the overall 3.3 billion, more of the earnings is going to be backend loaded to '25 and '26 given the gestation of projects and the amount of time it takes to get them up and running and fully operational.

Ben Bienvenu
Yeah. Okay. Thanks very much.

John Neppl
You bet.

Greg Heckman
Thank you.

Operator
The next question comes from Adam Samuelson from Goldman Sachs. Please go ahead.

Adam Samuelson
Yes. Thanks. Good morning, everyone.

Greg Heckman
Good morning.

Adam Samuelson
Good morning.

John Neppl
Hey, Adam.

Adam Samuelson
Hi. So, I wanted to comment on the long-term capital allocation question maybe a slightly different way. You talked about maybe a bit more frontend loaded on the capex front over the next couple of years, which makes sense.

But as we look at where the balance sheet is today, you're operating well above that kind of baseline earnings level now and it sounds like you are pretty optimistic about that environment,

certainly in the back half of the year and presumably that would persist into '23 based on the way the market sits that there's excess capital further that's being generated.

The balance sheet is quite under levered. So, I appreciate in the '26, you gave that dollar plus of upside from additional buyback, additional capital allocation. But what do you think the right leverage associated with that new business model would look like? Because as I would sit here today, I would think there's probably $3 to $4 billion at least of unallocated excess capital to deploy relative to at least that $11 number over the next four years. And potentially more based on where the balance sheet sits.

John Neppl
Yeah. No, I think that's right. Here's how we've done it.

So, the dollar plus in the outyear is really driven by in the model looking at our available additional capital that's not deployed today. And so, you take that.

And we looked at over time what we--what available capital we would have if we were targeting more of a triple B leverage ratio sort of range. So, let's say two and a half times. And that implies a considerable amount of available capital. But the way we model it out very conservatively is assuming that as we deploy that capital, it's going to ramp up kind of evenly over a four-year period to get to 100 percent contribution from those investments.

So, early on capital being deployed but not really seeing the benefits. In fact, a lot of benefits beyond 2026.

So, the dollar plus in 2026 becomes a bigger number in later years as that capital is deployed into longer term projects. But you're absolutely right. We've--that was part of that upside potential is taking our available excess, I'll say, capital and deploying that as well.

Greg Heckman
And you're correct, the thing that will move that forward then would be M&A or share repurchases can make it happen faster.

Adam Samuelson
And maybe just on that point, Greg, as we think about where the stock is now or has been over the course or the past kind of year, how do you--and when you think about the cadence of repurchase going forward, should we expect a more ratable cadence? Should we think about you being opportunistic in periods of stock weakness? Or maybe holding cash in reserve and depending on M&A pipeline.

I'm just trying to get a sense of how we should--because again, there's a pretty significant amount of excess capital that you're kind of have at your disposal to deploy and I'm just trying to think about how we should be baking that in, especially in a moment where your stock does not seem to be reflecting any of this kind of long-term earnings potential.

John Neppl
Yeah. Adam, I'll take that.

So, I think going forward, what we would expect to see is a higher frequency of share buyback. I don't know if it's going to be exactly ratable. I think we'll also look at times where we can be

opportunistic in buying. And if we divest in something and we have cash proceeds, we'll also look at that as an opportunity.

And on the M&A side, certainly as things happen, we'll let you know that. But I think that our expectation is we want to have a good balance between near term returning opportunities which would be M&A bolt-on and share buyback and balance that with longer term growth initiatives that we have underway today in that project list.

Adam Samuelson
Okay. And if I could just squeeze a clarifying question on the guidance because I think in response to the market outlook question, you talked about being--seeing upside to the curves and being encouraged about the way the market's being set up.

But I want to be clear that the 12 plus really just assumes the forward crush curves as we sit today, which you might yet think is conservative. Is that the right--am I understanding that right?

John Neppl
Yeah, that's correct. We're not--there's no potential of the curves improving in our outlook. We're just looking at what the curves are currently.

Adam Samuelson
Perfect. I'll pass it on. Thank you.

John Neppl
Thank you.

Operator
The next question comes from Ben Theurer from Barclays. Please go ahead.

Ben Theurer
Yeah. Thank you very much. Good morning, Greg. Good morning, John.

Greg Heckman
Good morning.

John Neppl
Good morning, Ben.

Ben Theurer
So, just to--wanted to follow up on one segment we haven't spent some time on today and that's the milling business, which obviously was very strong during the quarter.

Can you give us an update where you stand right now, what you're seeing more short-term for the second half, obviously? You raised the outlook because of what the strength was in the first half, and it was obviously more than triple in the first half compared to last year.

But how should we think about the second half also in light of that you just reiterated basically your outlook for the baseline EPS and it's what you essentially generated in six months is what you expect to generate roughly on an annual basis. So, just to put that into context, that would be my first question. Thank you.

Greg Heckman
Sure. Yeah. The team did a fantastic job here in the quarter. And I think it's a great example of managing our end-to-end value chains.

If you look at the South American business, the Brazilian wheat milling, we not only feed that origination with Brazilian wheat, but with--out of Argentina and the way the team handled the value chain there and got ourselves covered. But then the key is the milling team executed as well, right? We were able to get higher prices and help offset our industrial costs and we hit higher volumes with both the food processing as well as the food service.

So, great job by the team. Can't say enough about that.

We do expect the second half to fall more in line with history. So, wouldn't expect that setup to repeat again.

Ben Theurer
Okay. Perfect. That's very clear.

And then, just within the framework and the update, thanks for all the details here, but I was a little surprised to still see you actually increasing even estimates for sugar and bioenergy JV. Could you give us an update where you stand on that potential disposal? Because I mean, we've talked about it as being non-core, but it's still treated as relevant piece, and you have it within your framework. Just to understand how we should think about it conceptually and where it fits in within that framework from summer 2022 back to 2026 and what--where and when we should assume this to be disposed.

John Neppl
Yeah. Yeah, thanks for that, Ben. We continue to look at that JV as not permanent. We modeled it in because we don't--until there's a deal, we didn't want to assume something like that in our modeling. But I think our expectation would be that any proceeds we get from that will either be--will be used in some combination of M&A growth and share buyback.

And so, I think whatever we do there should be net neutral to accretive to the model. So, we just left it in the way it is.

Ben Theurer
Okay. That makes sense. Perfect. Thank you very much.

Operator
The next question comes from Steven Haynes from Morgan Stanley. Please go ahead.

Steven Haynes
Good morning. Thanks for taking my question. I just wanted to touch on some of the productivity initiatives you were alluding to at the end of the call and some of the--it sounds like you're leaning into some technology. So, maybe if you can just provide a little bit more color around what some of those investments are and how you can use that to offset some inflation that you're seeing. Thank you.

Greg Heckman
Yeah. I'll start. John can fill in.

But I think it's cultural. It's not unlike the financial discipline and the focus on risk management that we used to help our customers at both ends of the supply chain be successful. It cuts through the business. It's not unlike sustainability, which runs all the way through the business.

And as we work with our customers, whether it's feed, food, or fuel, but want lower carbon intensity products, now it's about taking digital and a focus on continuous improvement because we're now in a position to do that and to make those investments. And whether that's improving our supply chain, making it easier to do business with using the sensing as well as analytics to drive efficiency into our facilities where we've got tests going where we can now get--the machine can now outperform our best operator in our plants. And those are things that we'll continue to work forward that will be multi year improvements that we can work against.

So, it just becomes part of the thread that runs through the entire company and the culture.

Steven Haynes
Great. Thank you.

Operator
The next question comes from Robert Moskow from Credit Suisse. Please go ahead.

Robert Moskow
Hi, Greg and John. I wanted to know, is there any way to maybe frame the volume increase that this capital deployment might represent either to your processing footprint or origination footprint? It might help kind of give investors another way of looking at why this is structural growth benefit longer term over the next four years, all the capital.

In order of magnitude, it is a 10 percent increase in your footprint? Or is there any way of thinking about it?

John Neppl
Yeah, I think it's a little tricky to say right now. The project list we have today is across a number of different things. And I would say a 10 percent increase in our crush is probably a little high from where it's modeled. But on the origination side, it's not so much about maybe the amount we're originating, but how we're originating it.

Certainly, there'll be some addition to origination, but it's getting more direct to the farmer. It's less reliant on other commercials, for example, or finding other ways to have a financial relationship with the producer. There's a lot of what we're doing on the origination side.

But ultimately, over time, there will be an increase certainly in volume particularly in North America as we look at the expansion in--with Chevron, for example, that we've announced, other projects potentially we're looking at on that side with greenfield and brownfield. We've got some de-bottlenecking in there, which typically is kind of adding, I'll say, low single digit capacity over time through multiple projects.

So, I don't know if I'd say 10 percent increase globally, but certainly if we ultimately execute on some of the projects we have on the list and see other opportunity, it could be in that realm--in that range. I think today, we're looking at something more like a 5 percent volume increase overall.

Robert Moskow
Okay. Thanks for that. And maybe a follow up.

Interest expense is a lot higher. I think you've raised it for the year. I was just curious. You can see the multiyear layout for earnings power growing, but is there a consideration here for--are you going to increase your debt load more because you're under levered today? And given the rising interest rate, is there an offset at all for interest expense being higher longer term?

John Neppl
Yeah. And we do have modeled in over time to lever a little--lever to some degree because right now, we're--I'd tell you, we're under levered, certainly.

A big part of the increase in interest, there is certainly some from higher debt levels on average year-over-year and higher interest rates. But there's also a component in there where we've borrowed in lower currency in other countries where interest rates are high, and that interest has to be reported, obviously, in interest expense. But the offsetting currency hedges end up in gross margin based on the way GAAP requires us to report it.

So, you don't get a really fair look at net interest expense on our financials. But I would say half of the increase we've seen year-over-year on interest expense, half that increase is related more to high interest rate loans and local currencies where we've offset it with currency hedges.

And going forward, that'll continue to be part of our strategy going forward, if it makes sense.

Robert Moskow
Got it. Thanks, again.

Operator
The next question comes from Ben Kallo from Baird. Please go ahead.

Ben Kallo
All right. Thanks for taking my question. You talked about--a little bit about renewable diesel market and some push out. Maybe, could you just elaborate a little bit more on that? Thank you.

Greg Heckman
Yeah. We continue to see excellent demand from the fuel side. But the majority of our volume is still going to food. So, the fuel renewable diesel demand in North America continues to ramp.

Also, from an overall, this pullback in price that we've seen globally in palm and vegetable oils in general have really slotted it back into the biofuels rations, which I think is pretty productive and constructive for the mid and long-term as well.

Operator
Again, if you have a question, please press star then one. The next question comes from Ken Zaslow from Bank of Montreal. Please go ahead.

Ken Zaslow
Hey. Good morning, guys.

John Neppl
Hey, Ken.

Greg Heckman

Good morning, Ken.

Ken Zaslow
Couple of questions. What creates a disconnect between the curve and what will happen in the future? It is simply the crop comes in or there are things that you're seeing that would improve the environment besides what the inefficient curve would do at this point?

Greg Heckman
I think as you look at the second half here--look, North American weather is still critical, right? The next two months, the world needs us to develop a good crop here in North America and we expect that'll happen. Although, under any scenario, corn may end up being a little short of trend on yield.

You still got the Ukraine situation hanging over the S&Ds and can we get a sea lane open to get some of the stocks that are trapped there on wheat and corn and soil into the global markets? And I think under any scenario, we need those in the global market, but I think it'll be slow. And we hope it can get opened up but there's damage to the origination. There's damage in the ports. There's complexity in ensuring those vessels. So, that's a big unknown, I think, that's hanging out there.

And then, we've got the planning and crop development in South America and see how that plays out for getting the supply side kind of reset.

But then if you go to the demand side, probably the one negative would be if we did have a crop problem and you got a big run up in prices and that destroys some demand, again, don't expect that. I think that's the one flag to watch.

But from a demand right now, the meal demand, very good. The inclusion rates are very high. Soybean meal is very well priced not only versus corn but versus wheat. And with the S&Ds, we don't look for that to change.

And then if you look at the oil demand, as we just talked very good as we see the last of the recovery from COVID. We expect China to come back. And then oil well priced into the biofuels in general and renewable diesel specifically.

And then we talked China overall, we expect to bounce back.

So, we're seeing the demand. The financial market's pulled back and there was a lot of volatility broadly outside of even ag.

But in ag, the physical supply and demand remains very tight globally. And I think that's what we're starting to sense. And as things have calmed down, yeah, the buyers and sellers went away for a little bit while there was market volatility and now, they're kind of sorting and saying, okay, wow, things really haven't changed on the physical side, and this looks pretty tight for the second half. And I think that's why we think it's pretty constructive regardless of what the curves tell us, but the curves are the curves, and we'll go from there.

John Neppl
Ken, I just add, customers have been staying in the spot. And so, as you look out to Q4 pretty indicative given we're much more open in Q4 certainly than Q3 at this point. And it's very hard to get a good gauge on the outlook in the forward curve very far out when all the customers are in the spot because there's just not a lot of liquidity out there.

So, it doesn't necessarily reflect where we think S&Ds are going to be at that point.

Ken Zaslow
Then, my question is, so, if the environment stays at this level, obviously beyond the curve and into 2023 through that--and then as you go into 2024, you then have the capital spending and the returns. So, even if you go down to normal--so, is there a scenario or likely scenario that your earnings will actually stay above $10 almost through this entire period if--because you're going to be at this stronger earnings.

And then as even kind of a bait, you still have all this capital spending.

So, I get the idea that you may go down to the base, but what's the scenario in which you actually hit your 8.50 in the next five years? Is there really a viable scenario given the capital spending and the operating environment? Or do you stay at this 10 plus number through 2026?

It almost seems like you're creating an environment--you're in an environment that gets you there. And then, even if it updates, you are actually deploying capital to keep you there even as it goes. Am I not thinking about this right? Or is that incorrect? How do you think about that?

John Neppl
Ken, I think you're spot on with how you're thinking about it. When we modeled this out, we do expect '23 and '24 to be above baseline in terms of the market environment. And so, the assumption we have around crush margins for '23 and '24 are still elevated over the long-term average.

But as that comes down and we model the 8.50 to be sort of this ongoing apples-to-apples baseline, that's when--at the same time, the benefits of all the capital allocation should be taken hold. So, we absolutely think that at least given today how we've modeled it out, that we will stay at an elevated level over a timeline as that capital's being deployed.

Ken Zaslow
Perfect. And then, when you think about the--going back to another question that was asked. If you go through that period of time, the cash created is going to be far higher than what you're anticipating, unless you're--I mean, is that not a--so, you're going to have more cash than you anticipated. And then, you got to deploy that cash somewhere in that period of time as well? Is that also--that almost becomes a cycle.

You can't get below $9 or $10 if you keep on deploying cash--as you generate more cash, and the environment stays strong. It just seems like a cycle that goes up, not down. Where am I wrong?

John Neppl
No, that's certainly our goal. And I think as you look over time and you think about the excess cash that we would generate; it really depends on how it's deployed. If it's deployed in longer term, I'll say, capex-type projects or M&A that takes time to get done, some of those things may result in some of those earnings being beyond 2026.

And so, when we modeled it out, we actually see benefits increasing beyond '26 that are not shown on the slides. On the other hand, if we overweight towards share buyback, you're going to

see a quicker return on it, maybe not as high later, but you'll certainly see a more immediate return.

But overall, I think over that whole timeline, we're really looking at building a business that should have higher highs and higher lows, and that's our goal. And ultimately, what would keep us from staying at that elevated level over the next few years as we deploy capital would simply be if the market goes below historical average or the averages that we have built in the model.

But we don't see--foresee that at this point.

Greg Heckman
You've got the framing exactly right, Ken, with the second half setup and the momentum that should carry into '23. And our goal is to continue to execute and be able to pull that forward and have the tough decision of how to allocate that capital and where to allocate it.

Ken Zaslow
Great. I appreciate it. Thanks, guys.

Greg Heckman
You bet.

John Neppl
Thank you.

Operator
This concludes our question-and-answer session. I'd like to turn the conference back over to CEO Greg Heckman for any closing remarks.

CONCLUSION

Greg Heckman
Thanks, everyone. Look, we continue to be proud of the team's commitment and the execution and we're absolutely confident in what we build here at Bunge.

Thanks, again, for joining us today, and we look forward to speaking to you again soon.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.